House of Representatives

General Assembly

File No. 216

January Session, 2015

House Bill No. 5185

House of Representatives, March 26, 2015

The Committee on Housing reported through REP. BUTLER of the 72nd Dist., Chairperson of the Committee on the part of the House, that the bill ought to pass.

AN ACT CREATING INCENTIVES FOR YOUNG PROFESSIONALS TO LIVE IN URBAN AREAS.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. (NEW) (*Effective October 1, 2015*) (a) The Commissioner of Housing, in consultation with the Commissioner of Revenue Services, may establish a Young Professionals Urban Housing Incentive program. Said program shall provide an incentive for graduates of a public institution of higher education, a private university or college or a regional community-technical college to lease rental housing or to purchase and reside in a first home. Such home shall be bought or leased in urban areas designated by the Commissioner of Housing for purposes of the program. To be eligible for the program, a person shall (1) graduate on or after January 1, 2016, from any such institution, university or college, and (2) be personally liable for an amount equal to or exceeding twenty thousand dollars in student loans.

(b) Any person meeting the qualifications set forth in subsection (a) of this section may deduct up to ten per cent of their annual rental or mortgage payments from their personal income tax liability, provided no such deduction shall exceed one thousand two hundred dollars annually.

(c) Any person meeting the qualifications set forth in subsection (a) of this subsection may apply to the Commissioner of Housing for acceptance to the Young Professionals Urban Housing Incentive program. Such application shall be made on such form as the Commissioner of Housing prescribes, and shall be accompanied by supporting documentation demonstrating that such person meets such qualifications.

(d) Participants in the Young Professionals Urban Housing Incentive program shall be eligible to participate during the period from the taxable year during which a participant graduates, and for nine taxable years thereafter, provided an application is made to the Commissioner of Housing pursuant to subsection (c) of this section every two years. Any benefits received under this section shall cease immediately if the participant ceases to pay rent or to make mortgage payments on a primary residence located in an urban area designated by the Commissioner of Housing.

Sec. 2. Subparagraph (B) of subdivision (20) of subsection (a) of section 12-701 of the general statutes, as amended by section 50 of public act 14-47, is repealed and the following is substituted in lieu thereof (*Effective July 1, 2015, and applicable to taxable years commencing on or after January 1, 2015*):

(B) There shall be subtracted therefrom (i) to the extent properly includable in gross income for federal income tax purposes, any income with respect to which taxation by any state is prohibited by federal law, (ii) to the extent allowable under section 12-718, exempt dividends paid by a regulated investment company, (iii) the amount of any refund or credit for overpayment of income taxes imposed by this state, or any other state of the United States or a political subdivision thereof, or the District of Columbia, to the extent properly includable in gross income for federal income tax purposes, (iv) to the extent properly includable in gross income for federal income tax purposes and not otherwise subtracted from federal adjusted gross income pursuant to clause (x) of this subparagraph in computing Connecticut adjusted gross income, any tier 1 railroad retirement benefits, (v) to the extent any additional allowance for depreciation under Section 168(k) of the Internal Revenue Code, as provided by Section 101 of the Job Creation and Worker Assistance Act of 2002, for property placed in service after December 31, 2001, but prior to September 10, 2004, was added to federal adjusted gross income pursuant to subparagraph (A)(ix) of this subdivision in computing Connecticut adjusted gross income for a taxable year ending after December 31, 2001, twenty-five per cent of such additional allowance for depreciation in each of the four succeeding taxable years, (vi) to the extent properly includable in gross income for federal income tax purposes, any interest income from obligations issued by or on behalf of the state of Connecticut, any political subdivision thereof, or public instrumentality, state or local authority, district or similar public entity created under the laws of the state of Connecticut, (vii) to the extent properly includable in determining the net gain or loss from the sale or other disposition of capital assets for federal income tax purposes, any gain from the sale or exchange of obligations issued by or on behalf of the state of Connecticut, any political subdivision thereof, or public instrumentality, state or local authority, district or similar public entity created under the laws of the state of Connecticut, in the income year such gain was recognized, (viii) any interest on indebtedness incurred or continued to purchase or carry obligations or securities the interest on which is subject to tax under this chapter but exempt from federal income tax, to the extent that such interest on indebtedness is not deductible in determining federal adjusted gross income and is attributable to a trade or business carried on by such individual, (ix) ordinary and necessary expenses paid or incurred during the taxable year for the production or collection of income which is subject to taxation under this chapter but exempt from federal income tax, or the management, conservation or maintenance of property held for the production of such income, and the amortizable bond premium for the taxable year on any bond the interest on which is subject to tax under this chapter but exempt from federal income tax, to the extent that such expenses and premiums are not deductible in determining federal adjusted gross income and are attributable to a trade or business carried on by such individual, (x) (I) for a person who files a return under the federal income tax as an unmarried individual whose federal adjusted gross income for such taxable year is less than fifty thousand dollars, or as a married individual filing separately whose federal adjusted gross income for such taxable year is less than fifty thousand dollars, or for a husband and wife who file a return under the federal income tax as married individuals filing jointly whose federal adjusted gross income for such taxable year is less than sixty thousand dollars or a person who files a return under the federal income tax as a head of household whose federal adjusted gross income for such taxable year is less than sixty thousand dollars, an amount equal to the Social Security benefits includable for federal income tax purposes; and (II) for a person who files a return under the federal income tax as an unmarried individual whose federal adjusted gross income for such taxable year is fifty thousand dollars or more, or as a married individual filing separately whose federal adjusted gross income for such taxable year is fifty thousand dollars or more, or for a husband and wife who file a return under the federal income tax as married individuals filing jointly whose federal adjusted gross income from such taxable year is sixty thousand dollars or more or for a person who files a return under the federal income tax as a head of household whose federal adjusted gross income for such taxable year is sixty thousand dollars or more, an amount equal to the difference between the amount of Social Security benefits includable for federal income tax purposes and the lesser of twenty-five per cent of the Social Security benefits received during the taxable year, or twenty-five per cent of the excess described in Section 86(b)(1) of the Internal Revenue Code, (xi) to the extent properly includable in gross income for federal income tax purposes, any amount rebated to a taxpayer pursuant to section 12-746, (xii) to the extent properly includable in the gross income for federal income tax purposes of a designated beneficiary, any distribution to such beneficiary from any qualified state tuition program, as defined in Section 529(b) of the Internal Revenue Code, established and maintained by this state or any official, agency or instrumentality of the state, (xiii) to the extent allowable under section 12-701a, contributions to accounts established pursuant to any qualified state tuition program, as defined in Section 529(b) of the Internal Revenue Code, established and maintained by this state or any official, agency or instrumentality of the state, (xiv) to the extent properly includable in gross income for federal income tax purposes, the amount of any Holocaust victims' settlement payment received in the taxable year by a Holocaust victim, (xv) to the extent properly includable in gross income for federal income tax purposes of an account holder, as defined in section 31-51ww, interest earned on funds deposited in the individual development account, as defined in section 31-51ww, of such account holder, (xvi) to the extent properly includable in the gross income for federal income tax purposes of a designated beneficiary, as defined in section 3-123aa, interest, dividends or capital gains earned on contributions to accounts established for the designated beneficiary pursuant to the Connecticut Homecare Option Program for the Elderly established by sections 3-123aa to 3-123ff, inclusive, (xvii) to the extent properly includable in gross income for federal income tax purposes, fifty per cent of the income received from the United States government as retirement pay for a retired member of (I) the Armed Forces of the United States, as defined in Section 101 of Title 10 of the United States Code, or (II) the National Guard, as defined in Section 101 of Title 10 of the United States Code, (xviii) to the extent properly includable in gross income for federal income tax purposes for the taxable year, any income from the discharge of indebtedness in connection with any reacquisition, after December 31, 2008, and before January 1, 2011, of an applicable debt instrument or instruments, as those terms are defined in Section 108 of the Internal Revenue Code, as amended by Section 1231 of the American Recovery and Reinvestment Act of 2009, to the extent any such income was added to federal adjusted gross income pursuant to subparagraph (A)(x) of this subdivision in computing Connecticut adjusted gross income for a preceding taxable year, (xix) to the extent not deductible in determining federal adjusted gross income, the amount of any contribution to a manufacturing reinvestment account established pursuant to section 32-9zz in the taxable year that such contribution is made, **[**and**]** (xx) to the extent properly includable in gross income for federal income tax purposes, for the taxable year commencing January 1, 2015, ten per cent of the income received from the state teachers' retirement system, for the taxable year commencing January 1, 2016, twenty-five per cent of the income received from the state teachers' retirement system, and for the taxable year commencing January 1, 2017, and each taxable year thereafter, fifty per cent of the income received from the state teachers' retirement system<u>, and (xxi) to the extent allowable under section 1 of this act, rental or mortgage payments by persons participating in the Young Professionals Urban Housing Incentive program established pursuant to section 1 of this act</u>.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*October 1, 2015*	New section
Sec. 2	*July 1, 2015, and applicable to taxable years commencing on or after January 1, 2015*	12-701(a)(20)(B)

HSG *Joint Favorable*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 16 $	FY 17 $
Department of Revenue Services	GF - Potential Revenue Loss	5.3 million - 7.2 million	21.3 million - 28.9 million
Department of Revenue Services	GF - Potential Cost	85,000	55,000
Department of Housing	GF - Potential Cost	At least 100,000	At least 100,000
State Comptroller - Fringe Benefits[1]	GF - Potential Cost	21,258	21,258

Municipal Impact: None

Explanation

The bill results in (1) a potential revenue loss of $5.3 million – $7.2 million in FY 16 and $21.3 million - $28.9 million in FY 17 and (2) an annualized potential cost of $206,258 in FY 16 and $176,258 by allowing the Commissioner of Housing to establish a Young Professionals Urban Housing program.

The program would provide an income tax deduction of up to $1,200 per year for 10 years to future college graduates with at least $20,000 in student loans renting or owning housing in designated urban areas within the state. It is estimated that up to 24,080 graduates

[1]The fringe benefit costs for most state employees are budgeted centrally in accounts administered by the Comptroller. The estimated active employee fringe benefit cost associated with most personnel changes is 38.65% of payroll in FY 16 and FY 17.

may be eligible for the program each year.[2] Assuming that all eligible graduates participate in the program as of January 1, 2016, this would result in a revenue loss of $5.3 million - $7.2 million in FY 16 and $21.3 million - $28.9 million in FY 17.

It is unclear whether or how the credit extends to multiple residents within the same dwelling paying a portion of the rent or mortgage. For the purposes of this analysis, it assumed that all eligible graduates are individually responsible for the full amount of qualifying rent or mortgage.

Furthermore, since the program applies to students graduating on or after January 1, 2016 but the income tax deduction applies beginning with the 2015 income year, it is unclear whether the deduction would apply retroactively. This analysis reflects an impact beginning on or after January 1, 2016 only.

To administer the deduction, the Department of Revenue Services (DRS) would require one Tax Correction Examiner ($55,000 for salary and $21,258 for fringe costs) for audit and on-going compliance, resulting in a total annualized cost of $76,258.

The DRS would also incur a one-time cost of approximately $30,000 to administer the deduction, including changes to the online Taxpayer Service Center ($20,000) and form alteration and printing ($10,000).

The Department of Housing would require at least $100,000 annually for either staff positions or to hire a third party administrator to (1) implement the program, (2) review applications to the program and (3) conduct compliance audits to determine whether participants are in good standing on rental or mortgage payments.

The Out Years

State Impact:

[2] This estimate is based on the current number of in-state and out-of-state college graduates annually in Connecticut adjusted for the proportion living independently and having a student loan liability of $20,000 or greater.

Agency Affected	Fund-Effect	FY 18 $	FY 19 $	FY 20 $
Department of Revenue Services	GF - Potential Revenue Loss	31.9 million - 43.3 million	42.5 million - 57.8 million	53.2 million - 72.2 million

Municipal Impact: None

The annualized ongoing costs impact identified above would continue into the future subject to inflation.

Sources: *Connecticut Department of Higher Education Degree Completions Database*
National Center for Education Statistics 2010 Digest of Education Statistics
CollegeScholarships.org
Gallup February 13, 2014 Survey

OLR Bill Analysis

HB 5185

AN ACT CREATING INCENTIVES FOR YOUNG PROFESSIONALS TO LIVE IN URBAN AREAS.

SUMMARY:

This bill allows the housing commissioner, in consultation with the revenue services commissioner, to establish a program providing an income tax deduction to recent college and university graduates who rent or purchase their first home in designated urban areas. These graduates qualify for the deduction if they owe at least $20,000 in student loans. The deduction equals up to 10% of their rent or mortgage payments, up to $1,200 per year for 10 years.

EFFECTIVE DATE: October 1, 2015, except for the provision authorizing the income tax deduction, which takes effect on July 1, 2015 and applies to income years beginning on or after January 1, 2015.

INCOME TAX DEDUCTION

Under the bill, the housing commissioner may establish a Young Professionals Urban Housing Incentive Program to provide a state income tax deduction to eligible recent graduates. The deduction, up to $1,200 annually, is up to 10% of an eligible taxpayer's rent or mortgage payments. (The bill does not specify whether the deduction is available to more than one household member.)

For example, under the bill, a qualifying single filer with a Connecticut adjusted gross income (CT-AGI) of $50,000 who pays $12,000 a year in rent may deduct up to $1,200 from his or her CT-AGI, in addition to other deductions the law allows. Based on 2014 tax rates, the $1,200 deduction reduces the taxpayer's liability by $54, from $2,070 (CT-AGI of $50,000) to $2,016 (CT-AGI of $50,000 with maximum $1,200 deduction).

The deducted rent or mortgage payments must be for a primary residence in a designated urban area. Mortgage payments can be deducted only if they are for the taxpayer's first home. The commissioner must designate the urban areas eligible for the deduction.

ELIGIBLE TAXPAYERS

To qualify for the exemption, taxpayers must:

1. have graduated from a public or private institution of higher education, including regional community-technical colleges, on or after January 1, 2016;

2. be personally liable for at least $20,000 in student loans; and

3. pay rent or make mortgage payments on housing in an urban area designated by the housing commissioner.

Taxpayers are eligible to participate in the program only during the year in which they graduate and the following nine taxable years. An eligible taxpayer whose student loan debt falls below $20,000 or who stops making payments on an eligible property immediately becomes ineligible for the deduction.

APPLICATION

Eligible taxpayers must apply biennially, with supporting documentation, to the commissioner for acceptance into the program. The commissioner must create the application form.

BACKGROUND

Related Bill

sHB 6758 (File No. 24), favorably reported by the Housing Committee, authorizes the housing commissioner to establish a program providing a refundable income tax credit of up to $1,500 per year to recent college and university graduates who rent or purchase their first home in designated urban areas.

COMMITTEE ACTION

Housing Committee

Joint Favorable
Yea 13 Nay 0 (03/11/2015)